

**REPORT OF THE AUDIT OF THE
WARREN COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

April 30, 2006

ROSS & COMPANY, PLLC
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To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Michael O. Buchanon, Warren County Judge/Executive
Honorable Jerry "Peanuts" Gaines, Warren County Sheriff
Members of the Warren County Fiscal Court

Independent Auditor's Report

We have audited the Warren County Sheriff's Settlement - 2005 Taxes as of April 30, 2006. This tax settlement is the responsibility of the Warren County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Warren County Sheriff's taxes charged, credited, and paid as of April 30, 2006, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Michael O. Buchanon, Warren County Judge/Executive
Honorable Jerry "Peanuts" Gaines, Warren County Sheriff
Members of the Warren County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 12, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
July 12, 2006

WARREN COUNTY
JERRY "PEANUTS" GAINES, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

April 30, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 6,146,920	\$ 936,683	\$ 14,277,763	\$ 5,985,564
Tangible Personal Property	1,001,324		1,764,201	2,055,877
Intangible Personal Property				1,084,780
Fire Protection	1,494			
Increases Through Exonerations	1,225	420	2,930	1,232
Franchise Corporation	441,458		554,142	
Additional Billings	7,261	90	13,533	7,162
Oil and Gas Property Taxes	5,327		14,916	5,169
Limestone, Sand, and Mineral Reserves	1,244		3,483	1,207
Penalties	28,925	5,031	67,969	31,408
Adjusted to Sheriff's Receipt	26	50	4	102
Gross Chargeable to Sheriff	<u>\$ 7,635,204</u>	<u>\$ 942,274</u>	<u>\$ 16,698,941</u>	<u>\$ 9,172,501</u>
<u>Credits</u>				
Exonerations	\$ 16,974	\$ 2,100	\$ 37,145	\$ 15,682
Discounts	118,664	14,944	266,069	153,414
Delinquents:				
Real Estate	64,510	13,223	136,429	62,591
Tangible Personal Property	3,929		6,339	11,509
Intangible Personal Property				684
Additional Billings	2,499		240	2,534
Oil	55		153	53
Total Credits	<u>\$ 206,631</u>	<u>\$ 30,267</u>	<u>\$ 446,375</u>	<u>\$ 246,467</u>
Taxes Collected	\$ 7,428,573	\$ 912,007	\$ 16,252,566	\$ 8,926,034
Less: Commissions *(See Page 4)	<u>316,002</u>	<u>21,429</u>	<u>325,051</u>	<u>379,644</u>
Taxes Due	\$ 7,112,571	\$ 890,578	\$ 15,927,515	\$ 8,546,390
Taxes Paid	7,101,825	890,460	15,905,583	8,533,083
Refunds (Current and Prior Year)	<u>11,035</u>	<u>118</u>	<u>21,932</u>	<u>13,593</u>
Due Districts or (Refund(s) Due Sheriff)				
as of Completion of Fieldwork	<u>\$ (289)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (286)</u>

The accompanying notes are an integral part of this financial statement.

WARREN COUNTY
JERRY "PEANUTS" GAINES, SHERIFF
SHERIFF'S SETTLEMENT – 2005 TAXES
April 30, 2006
(Continued)

* Commissions:

10% on \$	10,000
4.25% on \$	16,723,417
2% on \$	16,252,565
1% on \$	533,198

WARREN COUNTY
NOTES TO FINANCIAL STATEMENT

April 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENT
April 30, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 21, 2005 through April 30, 2006.

Note 4. Interest Income

The Warren County Sheriff earned \$69,164 as interest income on 2005 taxes. As of July 12, 2006, the Sheriff is due \$1,600 in interest from the school district and owes \$1,729 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Warren County Sheriff collected \$82,751 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Warren County Sheriff collected \$5,799 of advertising costs and \$4,845 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff pays for the advertising costs, therefore, these amounts were transferred to the fee account. The advertising fees were used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.090, property is presumed abandoned after three years, after which time it is turned over to the Kentucky State Treasurer in accordance with KRS 393.110. For the 2005 taxes, the Sheriff had \$251 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

The Tax Escrow Account is used to deposit any unrefundable duplicate payments and unexplained receipts in an interest bearing account. The beginning balance as of January 1, 2005, was \$10,324. The account earned interest in the amount of \$157. The ending balance as of December 31, 2005, was \$10,481.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Michael O. Buchanon, Warren County Judge/Executive
Honorable Jerry "Peanuts" Gaines, Warren County Sheriff
Members of the Warren County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Warren County Sheriff's Settlement - 2005 Taxes as of April 30, 2006, and have issued our report thereon dated July 12, 2006. The Sheriff's office prepares the financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Warren County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Warren County Sheriff's Settlement - 2005 Taxes as of April 30, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
July 12, 2006

